

Senate Budget Committee Chairman Judd Gregg Comments on Release of Office of Management and Budget's Mid-Session Review

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Mr. GREGG. Mr. President, we are now back on the Homeland Security bill, which is an important piece of legislation as it addresses the issues of how we protect our Nation and how we deal with border security and threats involving potential weapons of mass destruction. It also addresses the issue of the management of the Department of Homeland Security, especially in areas where there have been issues, primarily--well, almost every function of the Department has had some issues, but the ones that have been highlighted, of course, are those dealing with the Katrina catastrophe and FEMA's response to that. It is an important piece of legislation for a variety of issues, but I want to carry on a little bit with the discussion--and then I want to yield to the Senator from Louisiana, who has an amendment, but I want to continue the discussion on the issue which has been raised relative to the report that was put out today, the mid-session review.

It is important for people to understand we are functioning in a Government that has fairly significant fiscal issues. We came out of the 1990s with the largest bubble in the history of this Nation, the Internet bubble--in the history of the world, honestly. And that bubble burst. That was a bubble in the tradition of the tulip bubble and the South Seas bubble, where basically people were printing money without any support behind it--called stocks. Stocks were being issued that had no value behind them. The stock value ran up, through exuberance, as Chairman Greenspan called it, irrational exuberance. When that burst, it basically took out of the economy huge amounts of liquidity. That was followed, of course, by the attack of 9/11, which was not only a catastrophic event from the loss of life and impact on our culture but also was a catastrophic event economically.

The President had the good sense to come forward with proposals which basically tried to address the economic side of the problems which we were confronting. We were headed into a very severe recession as a result of those two events. He proposed tax cuts which have been, I think vilified would be a kind word, from the other side of the aisle. He proposed those tax cuts basically on the theory that if you reduce the tax burden on the American worker to something that is fair, it will generate income because you basically create more incentive for people to be productive. It is human nature. Somebody is going to be able to take action which generates income. If they pay a very high tax on that action, they are going to have very little incentive to take that action. If they pay a reasonable and fair tax on that action, then they will take that action. The capital gains cuts is a classic example of that, where by cutting the capital gains rate we have seen massive amounts of economic activity that would not have occurred before when people would have sat on those assets, stocks, and real estate, or corporate assets.

But because there was a lower and more reasonable capital gains rate, people have turned those assets over, which has had two effects.

First, it generated a taxable event which generated huge amounts of revenue to our Nation. In fact, the capital gains events have exceeded the expected baseline for those receipts by a factor of almost \$100 billion over the last 2 to 3 years. Not only did they create those receipts, but it also took the assets which had been locked up in maybe productive assets but not as productive as they should have been and turned those dollars and those resources and capital investment into things which would be even more productively used because when people sell the assets, they take what they gain and reinvest it in a way which is going to produce even more income.

The practical effect of that is the dollars are working more effectively, the economy becomes more lean and more productive, and the result is even more revenue.

So the practical event is we have seen a huge increase as a result of the tax cuts which the President put in place with the support of this Congress--the Republican Congress, obviously, and not from the other side of the aisle--we have seen a huge increase in the rate of revenue growth in this country. During the last 2 years, revenue jumped 14 percent last year, and it is up almost another 13 percent in the first part of this year.

The effect of that has been that we have seen receipts coming into the Federal Treasury which have reduced the deficit dramatically from what was expected, down from \$423 billion to below \$300 billion. We are still continuing on that path. It is an extraordinarily positive path.

Most of those receipts, ironically, come from corporate America and the higher income quadrant of taxpayers in the American economic system. Those are the folks who are paying more in taxes today--from whom we are getting more tax receipts. We are back to basically the historical level of tax burden in this country--around 18 percent gross domestic product being raised through revenue. The problem we have today is not that we are under-taxed. In fact, we are generating a lot of revenue through overspending. What we need is control of spending.

This President has tried to do that on the non-defense discretionary side, but we still need to address the entitlement side of the picture and we need to address, obviously, how we manage catastrophes such as Katrina.

That brings me to the second point I wanted to make, and that is the Democratic response to this has traditionally been to get rid of these tax cuts. It is pretty hard to take that position any longer because tax reductions are generating so much revenue. Now their position is they are going to bring up Social Security, and they are going to talk just about Social Security. What a tired prescription that is. What a reflection of bankrupt ideas that is. They are once again trying to scare senior citizens over the issue of Social Security. That has been going on for 40 years.

When I was first elected to office, I talked to Tip O'Neill, who was Speaker of the House at that time, about what the Republicans who were serving in the House in the early 1980s were going to hear during the next campaign. He said we are going to hear about three things: Social Security and Social Security and Social Security.

That appears to be the new tactic which has been gone back to--bring out the bloody shirt of Social Security and wave it at the Republican Party while ignoring, for example, the fact that we have a very serious problem in the out-years with Social Security and other retirement benefits. The Social Security system has an unfunded liability of approximately \$12 trillion over its actuarial life. That is because there are many senior citizens who are going to be taking down Social Security as the baby boom generation retires.

What is the reaction on the other side of the aisle? Before any discussion can be pursued on the issue of Social Security, they immediately bring out the bloody shirt: Republicans are going to destroy Social Security; they are going to privatize Social Security; they are going to try to eliminate--"savage" was the term used by the Democratic leader--savage Social Security. Where are their proposals to address Social Security? Where are their proposals to address any entitlement reform other than to suggest that we raise taxes through their "paygo" proposal, which is actually "taxgo." They have no proposal. You can't tax your way out of this problem.

In fact, we have the right tax policy in place because we are generating huge revenue. What you need to do is aggressively address the spending side of the ledger. Therefore, I put forward a proposal which is supported by a large number--30 cosponsors--of my colleagues on this side of the aisle which sets out eight different initiatives called "SOS"--stop overspending--the purpose of which is to get our long-term fiscal house in order. Even though the deficit is coming down probably below even what would be a balanced budget for all intents and purposes if we weren't confronted with a war which we have to fight and the Katrina situation which we are confronted with--in fact, if you took the cost of the war out, which we have to spend because we are confronted with a war on terror, which is for our survival, if we took the cost of Katrina out, we would essentially have a balanced budget next year. That is the fact.

But we also have to face the fact that in the out-years when the baby boom generation retires, that is not going to be the case. There will be a huge amount of pressure on us because the cost of sustaining the retirement benefits is going to overwhelm the younger generation's ability to pay for it. We have to put forward an aggressive program to resolve that issue, to make the cost of Government affordable for our children while still delivering quality services to those who retire.

We can do it if we think about it and start soon to address it. That is what SOS does. There are eight different proposals to try to accomplish that.

I hope that we will take it up and at least aggressively debate it because it is an idea that basically uses the process to push policy, and the policy is what we need. We need to get on that case.

At this time, I yield the floor.

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